Weigh-in-motion system increases unit train loadings p. 28

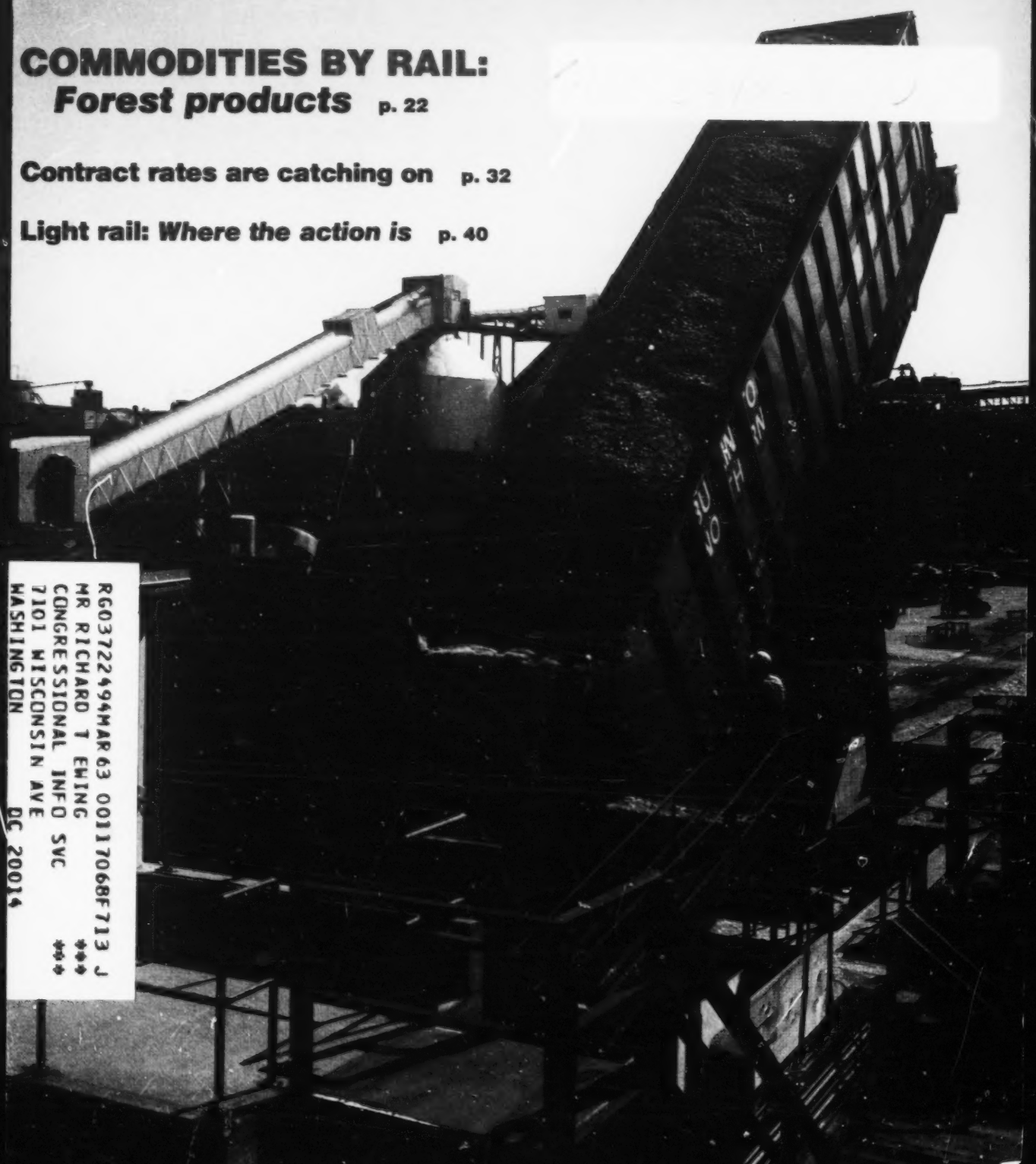
September 29, 1980

RAILWAY AGE

COMMODITIES BY RAIL: *Forest products* p. 22

Contract rates are catching on p. 32

Light rail: *Where the action is* p. 40



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Inside

LUTHER S. MILLER

A NIGHT TO REMEMBER

A lot of people deserve credit for the memorable about-face that took place in the U.S. House of Representatives on the night of Sept. 9. That was the night the House passed, at last, a railroad deregulation bill (p. 10).

For a while it has seemed that there would be no deregulation bill this year. The House, in a moment of midsummer madness, had accepted the infamous Eckhardt Amendment, which tore the guts out of the bill—pricing freedom. The Eckhardt Amendment was conceived by Texas utility interests anxious to keep coal rates artificially low; it was subsequently embraced by other big shippers trying to hitch a ride on the low-rate gravy train. For weeks it was the good guys vs the Texans, and not many days ago it seemed that the good guys would finish last.

But on Sept. 10 the House threw out most, though not all, of the offending Eckhardt language. The bill that finally came out of the House, while far from perfect in railroad eyes, nonetheless represented "a major step forward in removing regulation from the industry," as Conrail Chairman Edward Jordan put it.

Much of the credit must go to New Jersey Representative James J. Florio, the bill's floor manager, who worked tirelessly for a compromise but insisted on one that did not compromise the basic thrust of the legislation. The Carter White House also gets an A-plus on this one. No fewer than 100 telephone calls went from the White House to Capitol Hill in support of the bill—half a dozen of them from the President.

High on the credit list goes the Association of American Railroads, which came out fighting at the critical hour and did a thoroughly professional job. The AAR and the four brotherhoods, in an unusual show of unity, cosigned full-page ads in the two Washington newspapers. AAR President William H. Dempsey sent mailgrams to all members of Congress (except the Texas delegation) setting out the deregulation arguments. Meanwhile, the AAR's public affairs department packaged up key newspaper and magazine editorials backing the bill, and these went to Congress with another Dempsey letter. One editorial, from *Business Week*, concluded with words that might have given pause even to the Texas delegation: "Unless the rails get the right to set rates that will cover costs, there won't be anyone to haul coal for the Texas utilities."

When the vote came, it was lopsided: 337 for deregulation, 20 against. "Tuesday evening," said AAR Public Affairs Vice President Larry Kaufman, "saw a lot of happy people here."

BN AND SAN ANTONIO: A CAUTIONARY TALE

Burlington Northern, which has borne the brunt of the utility interests' attack (although BN's coal rates are substantially below the industry average), is beginning to wonder if it can continue to invest heavily in coal-hauling capacity without assurance of a reasonable return on that investment. "We will be very careful about future investments in coal," BN President Richard M. Bressler told coal shippers in Denver Sept. 9. "BN has other good investment opportunities."

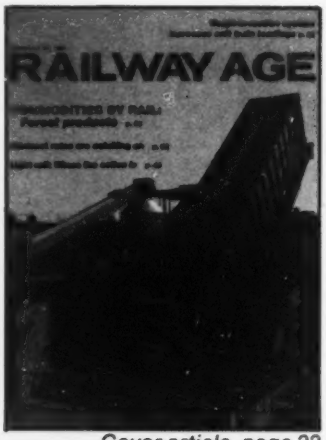
BN was the one railroad on the AAR board that found the new deregulation bill unacceptable—and no wonder. The bill would permit Congress to legislate rates for a single coal movement—to San Antonio. That's a BN haul.

If San Antonio wins this one, it could prove to be a costly victory.

RAILWAY AGE

September 29, 1980

FEATURES



Cover article, page 22

COMMODITIES BY RAIL

Forest products

22 A totally bleak picture? Look again

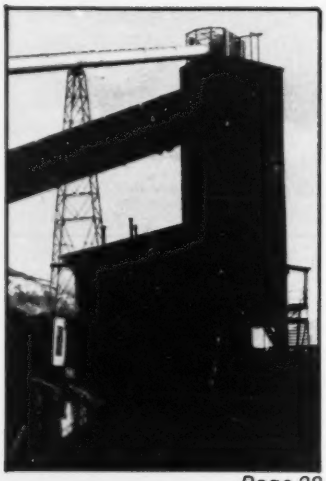
With housing starts down drastically, lumber traffic is in a deep slump. But loadings of primary forest products, pulp, and paper are showing surprising strength, and there is widespread optimism for future profitability.

28 Weigh-in-motion system increases unit train loadings

By using the LoadWEIGH system, which loads coal cars uniformly, Fording Coal of Canada achieves savings of up to $3,500 a train for 40 trains a month. The system combines track scales and a microprocessor minicomputer.

32 Contract rates are catching on

For railroads, the contracts mean a guaranteed volume of business, though rates can go up or down according to the quality of service; shippers, in return, reap such benefits as improved car supply and better transit time.



Page 28

LIGHT RAIL

40 Where the action is

50 Denver rethinks light rail

56 Competing for the equipment market

NEWS

4 Short and Significant

10 Deregulation takes one big step forward

12 ICC takes tougher merger stance

14 Governors call for "improved and expanded" train service

64 Moving People

76 The Railroad Market

Page 40

COMMENT

3 Inside

12 Watching Washington

15 Lines on Labor

DEPARTMENTS

68 People in the News

68 Suppliers

70 100 Years Ago

76 Carloadings

82 Products Report

82 New Literature

79 Classified Advertising

81 Professional Cards

83 Guide to Advertising

COVER: Burlington Northern unloads wood chips at Scott Paper, Everett, Wash. Photo by Hedrich-Blessing.

A totally bleak picture?

The recession has whittled away at carloadings, but a survey of major forest products haulers turns up some unexpected bright spots—and considerable optimism for the near future.

By GUS WELTY, Senior Editor

Forest products traffic isn't really the Rodney Dangerfield of the railroad commodity mix. True, it may lack the punch of piggyback, of 10,000-ton unit coal trains, of solid trains of grain-hauling jumbo covered hoppers, or (in better years than this) of long strings of loaded autoracks. But forest products traffic does get respect—as well it should, when you consider that trees and the things made from them consistently contribute between 2.5 million and 3 million to major railroads' carloadings, and that the profitability of this traffic has been substantially upgraded in recent years.

Even in recession-year 1980, the scene is not as bleak as might have been expected: Major roads' loadings of lumber and wood products have been running about 22% below 1979 levels, mainly because of the continuing slump in the housing industry, but, all things considered, movements of primary forest products and of pulp, paper, and allied products have held up well, with declines of less than 4% on primary products and of less than 2% overall in the pulp-paper-allied category.

In most instances, revenues are up even though loadings may be down, and with hardly an exception, roads that are biggest in the forest products market are optimistic about future traffic and its profitability. Carriers serving the South-Southeast see the brightest prospects; those operating out of the Pacific Northwest are staking out a somewhat more cautious position.

Only a handful of Class I roads would be regarded as "major" in terms of traffic originations, but the revenue impact of forest products traffic is pervasive. For example, if you were to take a guesstimate poll as to which railroads would be least inclined to worry about tree traffic, chances are that Grand Trunk Western would come in close to the top. Yet, forest products comprised GTW's third-highest revenue-producing commodity last year, ranking far behind motor vehicles and parts, of course, but running behind fuel and chemicals by less than $1 million.

Here's what some of the "majors" in originating traffic are thinking about what has been happening and about what is likely to happen:

Southern Pacific's carloadings of logs and chips are up by about 3% as paper mills have had to reach out farther to acquire chips because closer-in timber cutting has been reduced, while lumber loadings are down by about the industry average of 22%. Near-term and long-term, however, SP says it continues to be optimistic about the market, assuming that no fundamental changes occur in its structure.

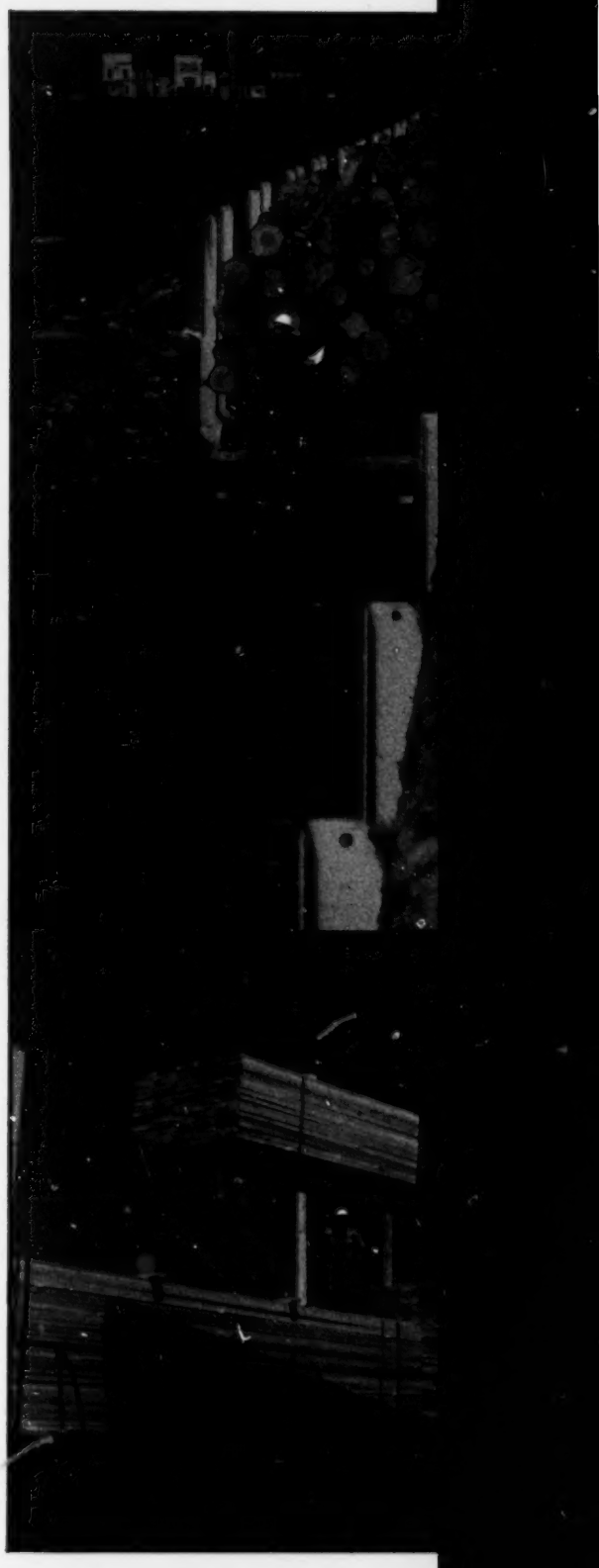
SP is relying in part upon the fuel efficiency of the rail mode; it is also counting heavily on a recently inaugurated ValueTrak program which, among other things, is helping reposition cars into the Pacific Northwest for loading with forest products. "Historically," says a spokesman, "SP has shipped empty cars into the Northwest for loading, and it's anticipated that ValueTrak and other backhaul programs we plan will substantially alter this pattern."

Improved schedules and performance are providing better dock-to-dock service, SP says, and for the future the road looks to "increasing the the scope of ValueTrak and expanding contract rate programs to help increase market share."

Soo Line's forest products numbers are smaller, naturally, but not its dependence on this kind of traffic. Last year, 25% of Soo's freight revenues started out with a tree. This year, Soo has seen healthy increases in loadings of chips and waste paper, lesser gains for pulpwood, pulp mill byproducts, printing paper, and pulpboard, and declines in just about every other tree-related products.

Long-term, Soo looks for continued strength in chips and pulpwood because of paper mill expansions and the likelihood that more new mills will be built. The railroad sees continued high demand for printing paper and pulpboard, and it forecasts development of new markets for pulp mill byproducts as a result of environmental concerns. But as for lumber, shingles, plywood, and other products heavily dependent upon the housing market, Soo is more cautious—figuring that 1981 could be a good housing year if mortgage rates become reasonable but not really figuring on a traffic upturn before the second half of the year.

Burlington Northern's outlook is decidedly mixed, with (depending upon what specific forest commodity product you're talking about) continued strong



Look again

Carloadings: The five-year trend

	Primary forest products	Lumber and wood products	Pulp, paper and allied products	Total
1975	1,023,000	607,000	1,015,000	2,645,000
1976	1,139,000	670,000	1,101,000	2,910,000
1977	1,111,000	675,000	1,102,000	2,888,000
1978	1,086,000	649,000	1,094,000	2,829,000
1979	1,055,000	597,000	1,097,000	2,749,000

Source: Car Service Division, AAR

export demand, diversion to piggyback and or over-the-road trucking (the latter for under-200-mile moves), increased use of private railcars and trailers, a decline in longest-haul transcontinental markets (for woodpulp), continued regionalization of production in some areas, and the possibility that some now-closed mills in the Northwest may remain that way.

BN, however, seems determined to explore the options open to it, and that's probably a good idea: Lumber alone put $300 million into the till last year, and while lumber loadings and revenues are down this year, a number of other segments of the market are showing revenue gains despite traffic declines, and BN has been up in both loadings and revenues in paper traffic.

Then, there is the South-Southeast territory; rail carriers there are as bullish on forest products business as Merrill Lynch is on America.

Illinois Central Gulf hasn't had a great year in terms of loadings, but in terms of revenues ICG will take it: Gross revenues are up substantially, and, while other roads talk in generalities about improving revenues and profitability, ICG gets very specific and has quids pro quo to justify its numbers. For example, since 1974 ICG "has actively pursued a program to increase rates on pulpwood and woodchips, to transform a historically unprofitable commodity into a profitable one. This has been a necessity in order to justify acquisition of equipment to replace retired cars. Through 1980, rates on pulpwood have had increases totaling 77.8% and rates on woodchips have been increased by 85.6%. To date, as a result of these agreements, ICG has added 425 pulpwood racks and 800 woodchip hoppers to the fleet at a cost of $28 million, and this expansion has allowed us to meet the growing demand for transportation of these commodities."

Rates have also gone up on such commodities as light-loading papers, waste paper, and wallboard, by much smaller percentages, and the road vows to continue to seek rate hikes on marginal (or worse) traffic.

While shippers may be paying more, they're benefiting more: For movement of lumber and wood products, ICG says it was the first in the industry to convert an entire bulkhead flatcar fleet from chain tiedowns to constant tensioning devices, thus saving both money and time because chains were not lost and cars were not delayed because tiedown devices had to be replaced. For movement of heavy-loading paper, ICG has under way a program to dedicate its fleet of high-cube 50-foot boxcars to this service, increasing per-car tonnage by as much as 25%. For movement of forest products generally, ICG is going strongly into coordinated interline services "such as the 'Link' with Conrail to increase market share. These services provide ICG with its longest haul and highest revenues while offering customers superior rail service."

What's ahead? ICG breaks it down by major product categories:

For primary forest products, in addition to continuing existing programs, "ICG is pursuing the use of computerized data in the production of timely and accurate turn-time reports which would allow both ICG and shippers to better pinpoint areas in need of improvement. Attention given to correcting these identified problem areas will result in faster turn-times, and this will contribute to improved profitability through a reduction in costs and increases in loads and trips per car."

On lumber and wood products, the road's marketing people note that a lumber distribution center in the Midwest "is currently in the planning stage....This center, when operational, would have the capability of serving a market within a 200-mile radius, offering customers reduced inventory costs through fast, reliable rail service to the distribution center and truck-size order quantities for delivery to the ultimate destination."

For paper and allied products, ICG looks to expansion of programs to provide additional revenue and loads, calling attention to a program under way "to develop backhauls for equipment now moving empty for paper-loading in the head-haul direction. This program will reduce empty-return ratios, provide additional revenue and profit, and reduce the number of boxcars needed to meet a growing demand."

Frisco, like Soo Line, doesn't have the big numbers of some of its larger neighbors, but Frisco has been showing sizable gains, is ahead this year in the pulp-paper-allied grouping, and has excellent prospects for the future. As one traffic officer puts it, the long-range outlook "varies between uncertain and bullish." The uncertainty has to do with the forest products and lumber area, severely impacted by what has happened to the general economy.

One area that is showing some strength is southern pine, as this market expands. And the traffic future for pulp, paper, and allied products is strong on the Frisco, with several paper mills in various stages of expansion: "Innovative moves affecting us and the paper industry have included the use of boxcars on three-way moves to further increase utilization, the use of high-cube boxcars for optimum loading, and new experimental methods of loading pulpwood."

Southern, in its observations on the present and the future, brings in a couple of other points. For now, its marketing people note, "paper business has continued strong in spite of the recession, and the movement of pulpwood and chips has continued to be very strong. There have been weaknesses, which will continue, in the whole lumber market due to the present situation in the construction industry."

For the future, however, Southern sees "continued growth in the total forest products industry field as a function of improved forestry practices throughout our service territory plus increased large mill lumber and plywood production. The marketing efforts of the yellow pine industry are moving them back into their historic markets in the Midwest and East, and we also expect continued growth of the paper industry in our service territory."

Then there's this: "We are working with motor carriers to reduce the cost of distribution of lumber by making a long-haul movement on chain flatcars and a short-haul move by motor carrier to the ultimate customer. We continue to maintain and increase our fleet of chain lumber flatcars, woodracks, and chip cars as determined by our forecasts of industry need. We've been able to reach agreement with the paper industry on rate levels that will support the acquisition of additional woodracks and woodchip cars, and our marketing effort related to the movement of pulpwood and wood chips holds incentives for the producers and the paper companies to improve equipment utilization. Very close communications have been established between the marketing and transportation departments of Southern and the paper industry related

to maintaining a reliable service and improving it where the cost/benefit relationship will justify this."

Family Lines, serving mills from Indiana to Florida and from Mississippi to Virginia, claims title to the No. 1 ranking among haulers of paper and allied products, and for the Family roads this year has been another good, if not great, one. Through eight months, the numbers show a slight increase in carloads, with a more substantial gain in revenues. Beginning in July, Family Lines did see some softening in certain domestic markets, but this was largely countered by strength in export demand.

Seaboard Coast Line and Louisville & Nashville remain optimistic about what may happen when the basic economy turns around: "As the paper industry entered the current downturn, a definite policy was adopted of holding inventories at a low level rather than building inventories unduly as was the case in the recession of four or five years ago. As a result, we feel that the paper industry is lean, and that a quick pickup will follow any increase in domestic demand."

This is not to say, of course, that the recession is not continuing to bring problems: "As the recession goes on, one of our growing difficulties is the increased aggressiveness of trucking companies in reducing rates and competing for tonnage which heretofore they did not particularly seek. The truck lines are desperately looking for backhauls, as well as for ways and means of keeping busy the equipment idled by the downturn in consumer items. We're meeting this competition with specific rate publications, where that can be done advantageously."

As for the long term outlook, going even beyond the leanness of the paper industry, Family Lines' marketing people point out that "the demand for paper products is growing on a per capita basis, especially abroad, and the American paper industry is in a good position to enjoy high levels of production for the next several years. The segment which we serve in the South is basically more modern and more efficient than in many other parts of the country, and we expect added impetus because of this."

Forecasts for Family Lines' biggest volume traffic, pulpwood and chips, look good, and—like SP—Family Lines sees fuel prices having an effect: "The growing cost of petroleum is tending to increase the reliance of the paper companies on the railroads for transporting their basic raw materials, and we're attempting to increase our capacity to do this, as well as to improve the profitability of the traffic."

Meanwhile, the outlook for the construction industry is also beginning to improve. With some moderation in interest rates, market analysts see a 1981 strengthening in housing starts, with the possibility that starts will approach an annual adjusted rate of two million-plus units in 1982.

Part of Family Lines' approach to building the traffic and making it more attractive has involved an internal restructuring. About two years ago the system created within its sales/marketing department groups with specific and total responsibility for sales, marketing, pricing, planning, and equipment and service liaison. Family Lines notes that it is possible to respond "more quickly and more intelligently when all elements of a market are included within a single group and when that group has been given not only the responsibility but the authority to accomplish the things necessary to improve our position." One illustration: Publication of reduced rates to encourage backhaul of scrap paper in boxcars assigned to paper mills, cars which otherwise would be returning empty.

In addition, Family Lines is using incentive rates for heavier loading, it has introduced 100-ton, 60-foot, high-roof boxcars for high-roll paper loading, and it is continuing its analyses of car assignments not only to ensure that assignments are productive but also to make certain "that the cars actually assigned are those best suited to the customer's needs and most likely to encourage the heaviest-possible loadings."

On an interterritorial basis, the system has joined with western carriers to establish reduced incentive rates on lumber and wood products moving from the West into the Southeast. These rates will reduce overall freight charges and should also encourage heavier loading, improve equipment utilization, and increase market share.

For lumber traffic, Family Lines has acquired additional equipment (through Trailer Train). It has also equipped its entire lumber car fleet with constant tension load-securement devices. Rates on primary forest products have been increased as an aid to the allocation of capital for purchase of additional equipment, and there has been a strong emphasis placed on improved fleet management, by customers and by the railroad's own operating department. To further improve utilization, Family Lines has set up incentive rates to encourage faster loading and unloading.

Like a number of other roads, Family Lines is now looking at contract rates in the forest products area: "We might be able to make contractual stipulations that will assure equipment supply or service levels, rate stability, switching performance, or other major items of mutual interest to our customers and ourselves." It is even giving some thought to broader operational changes, though these could be tough to bring about: "Our increasing fleet capacity will permit greater consideration to be given to trainload movements or other volume-related economies. It should be emphasized, though, that most of this traffic moves in local train service, with many of the movements involving two or more local trains, and it's difficult to conceive of unit-train or trainload possibilities which will not also involve duplicating existing train service and increasing costs."

● **Future traffic.** This whole area of forest products transportation is another one of those areas where the future is only partly up to the railroads to determine. For example, some western roads are concerned about the effects of increasing truck weight limits in states that are now below federal limits. Some roads wonder how patterns may change if forest products exports moving through both West and East Coast ports continue to grow. But even more basic may be the production shifts that have been taking place and will quite likely continue to take place—shifts that are giving the South-Southeast the preeminent spot so long enjoyed by the Pacific Northwest (where British Columbia has been coming on strong as a primary forest products supplier while other areas have been having their problems).

Illinois Central Gulf, for one, looks at the prospects rather bluntly as regards its participation in lumber and wood products traffic, and it comes out this way:

"ICG is strategically located in the heart of the southern lumber-producing area and is positioned to capitalize on opportunities for growth in this market. It's expected that through our planning period and beyond, this southern region will satisfy the majority of total lumber demand, while the Pacific Northwest is expected to show little growth in future production.

"Ownership patterns in these two regions help in the explanation of these production growth trends. The majority of western lumber land is owned by the federal government and is subject to regulations such as stumpage quotas and strict environmental standards. The southern lumber resources, however, are almost completely in the hands of private landowners actively engaged in the lumber business."

Then, carrying out the theory that the South shall rise again, there is this: The southern region "enjoys a more favorable growth cycle than that experienced in the Pacific Northwest. In addition, new technologies have been advanced which allow the use of southern grades of lumber in applications historically reserved for western species lumber." ■

Market

CARLOADINGS

Loadings of revenue freight in the week ended Sept. 6 totaled 389,295 cars, according to the Association of American Railroads. This was a decrease of 31,721 cars, or 7.5%, compared with the corresponding week last year. Both weeks included the Labor Day holiday. Ton-miles generated by carloadings in the week ended Sept. 6 are estimated at 16.0 billion, a decrease of 0.6% below the corresponding week of 1979.

REVENUE FREIGHT CARLOADINGS

Commodity	Sept. 6 week	Aug. 30 week	Aug. 23 week
Grain	29,510	33,205	32,850
Farm products	2,756	3,651	3,877
Metallic ores	26,765	28,344	27,951
Coal	106,366	117,074	117,366
Crushed stone, gravel & sand	12,545	14,511	14,685
Nonmetallic minerals	14,955	15,407	16,256
Grain mill products	15,235	17,798	17,141
Food and kindred products	16,010	19,135	18,532
Primary forest products	15,951	19,630	19,885
Lumber & wood products (except furniture)	7,182	10,141	9,543
Pulp, paper & allied products	17,810	20,661	20,138
Chemicals & allied products	23,145	28,311	25,932
Petroleum products	4,894	5,442	5,444
Stone, clay & glass products	15,082	16,202	15,989
Coke	3,612	4,104	3,885
Metals & products	11,896	14,498	13,240
Motor vehicles & equipment	12,088	12,877	12,982
Waste & scrap materials	9,133	11,267	10,989
Forwarder & shipping assn. traffic	9,573	11,546	10,864
All other carloads	34,643	42,251	41,151
LCL traffic	144	239	214
Total cars loaded	**389,295**	**446,394**	**438,914**
Cumulative total	1980		1979
36 weeks	**15,590,161**		**16,449,767**
Estimated revenue ton-miles (billions), 36 weeks	**613.5**		**605.2**

PIGGYBACK LOADINGS

U.S. piggyback loadings for the week ended Aug. 30 totaled 33,355 cars (11.5% below the corresponding 1979 week) and 61,196 trailers or containers (down 7.0% from 1979 week) and 61,196 trailers or containers (down 7.0% from 1979). Cumulative volume for the first 35 weeks of 1980 is 1,119,700 (down 10.7% form 1979) and 2,040,201 trailers or containers (down 7.8% from 1979).

CANADIAN CARLOADINGS

Canadian railway revenue freight loaded in the seven-day period ended Aug. 7 totaled 4.8 million tons (down 0.1% from 1979). Cars loaded totaled 65,793 (down 4.4% from 1979). Cumulative loadings for 1980 were up to 159.1 million tons (up 4.6% from 1979).

● *Amtrak.*—Will invest $1 million in a new locomotive overhaul facility at its Beech Grove, Ind., shops. Construction will begin this fall and is to be completed early next summer. About 75% of Amtrak's locomotive overhauls are performed at its New Haven, Conn., shop, which is now at capacity; the remaining overhauls are performed at contract shops. Amtrak expects to overhaul 10 locomotives a year at the new facility at a saving of approximately $25,000 per unit.

● *Missouri-Pacific.*—Has budgeted $148 million for acquisition of 100 diesel-electric units, 2,200 freight cars and other equipment in 1981. Included in the car program are 500 100-ton covered hoppers, 500 100-ton gondolas, 300 100-ton open-top hoppers, 100 100-ton coil steel cars, 200 special-purpose cars, 50 air dump cars, 50 cabooses, and 500 40-ft trailers for piggyback and over-the-highway service. The locomotive program calls for 45 2,000-hp units, 20 3,500-hp units, 20 1,500-hp units, and 15 2,250-hp units.

● *Southwestern Electric Power Co.*—Ordered 484 110-ton, 4,000-cubic-foot-capacity, high-side, rotary dump gondola cars from the Railcar Division of Evans Products Co.'s Transportation Systems & Industrial Group.

● *Freight cars and locomotives.*—The following report has been received from the AAR and the ARCI:

DELIVERED

	July		June	Seven months	
	1980	1979	1980	1980	1979
Built new by carbuilders	5,455	5,608	7,521	51,014	47,393
Built new in RR shops	435	554	381	3,214	3,202
Built new—total	5,890	6,162	7,902	54,228	50,595
Rebuilt	4	90	106	905	518
TOTAL DELIVERED	**5,894**	**6,252**	**8,008**	**55,133**	**51,113**
Locomotives (new and rebuilt)	167	100	178	1,200	953

ORDERED

To be built new by carbuilders	3,393	6,293	3,144	25,102	77,698
To be built new in RR shops	0	700	0	4,312	2,271
To be built new—total	3,393	6,993	3,144	29,414	79,969
To be rebuilt	0	84	0	869	454
TOTAL ORDERED	**3,393**	**7,077**	**3,144**	**30,283**	**80,423**

ON ORDER AND UNDELIVERED

	Aug. 1		July 1	Average Backlog	
	1980	1979	1980	1980	1979
To be built new by carbuilders	67,934	119,793	71,701	87,626	111,622
To be built new in RR shops	7,350	5,380	7,785*	6,595	5,605
To be built new—total	75,284	125,173	79,486*	94,221	117,227
To be rebuilt	64	23	68	371	102
TOTAL ON ORDER	**75,348****	**125,196**	**79,554***	**94,592**	**117,329**
Locomotives (new and rebuilt)	517	912	787	1,004	1,117

* Revised figures.

**Due to revisions and cancellations, the backlog has been reduced by 1,705.